

## MAY 2013 DISABILITY INSURANCE (DI) FUND FORECAST

### INTRODUCTION

This report provides the status of the DI Fund and includes information on the current and projected fund balance, receipts, disbursements, and contribution rates for the State Disability Insurance (SDI) program.

The DI program is a component of SDI and provides benefits to workers who are unable to work due to pregnancy or a non-work related illness or injury. California, Rhode Island, New Jersey, New York, Hawaii, plus the Commonwealth of Puerto Rico, are the only states and territories that provide DI for their workforce.

The SDI program includes the Paid Family Leave (PFL) program, which allows California workers to take up to six weeks of paid leave each year to care for a seriously ill child, spouse, parent or domestic partner, or to bond with a new child.

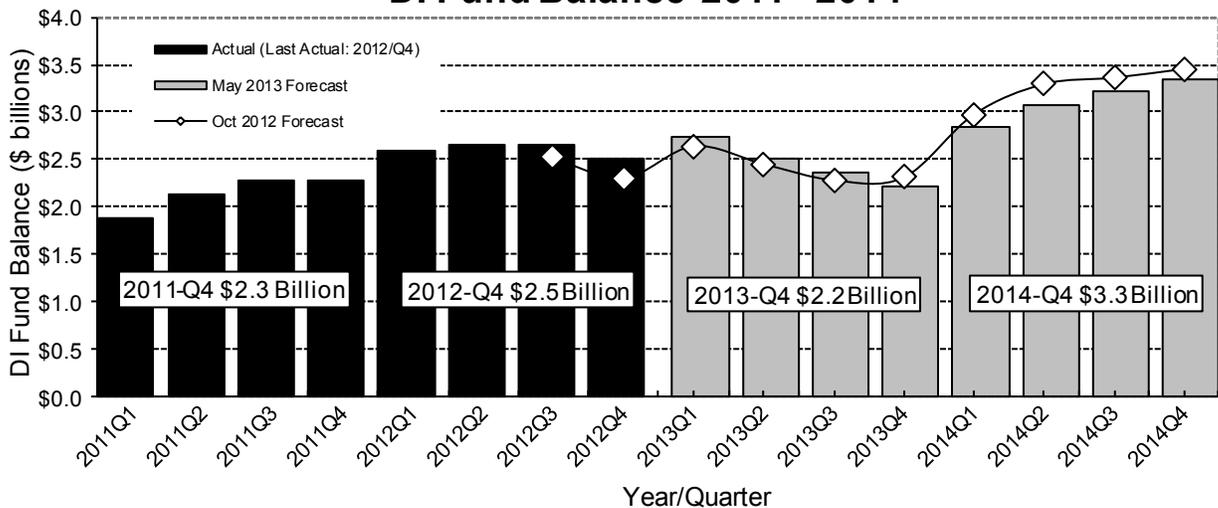
A DI Fund balance ranging from 25 percent to 50 percent of the prior 12 months of disbursements is generally considered adequate to maintain solvency through typical fluctuations in contributions and disbursements. The DI Fund adequacy rate was 44 percent for 2011, 49 percent for 2012, and projected to be 39 percent for 2013, and 59 percent for 2014.

### FUND BALANCE

The DI Fund balance was \$2.3 billion at the end of 2011, and \$2.5 billion at the end of 2012. The DI Fund balance is projected to be \$2.2 billion at the end of 2013, and \$3.3 billion at the end of 2014. These fund balance figures do not take into consideration the loan of \$303.5 million in September 2011 for payment of the interest due on advances to the UI Trust fund, nor the \$308.2 million loan for the interest payment in September 2012.

The 2011 and 2012 loans are statutorily required to be repaid, with interest, within five fiscal years. Additionally, the loan amounts have not been held against the fund when calculating the DI Contribution rate or benefit receipts. The following chart shows the actual and projected quarterly DI Fund balance from 2011 through 2014.

**DI Fund Balance 2011 - 2014**



The DI Fund balance is projected to be \$2.2 billion at the end of 2013.

## NET BENEFITS

Total SDI net benefits, including PFL, were \$4.8 billion for 2011, \$4.8 billion in 2012, and are projected to increase to \$5.5 billion in 2013, and \$5.4 billion in 2014.

Net benefits for PFL were \$508.7 million in 2011, \$537.9 million in 2012, and are projected to increase to \$590.1 million in 2013, and \$606.9 million in 2014.

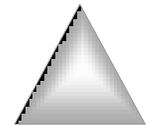
The projected increases in net benefits are primarily due to projected increases in the average weekly benefit amount (AWBA) and SDI claims paid. The AWBA is forecasted based on the ratio of net benefits paid to weeks compensated. The AWBA was \$446 in 2011, \$455 in 2012, and is projected to increase to \$465 in 2013, and \$472 in 2014. The increases are due to the majority of claimants' wages increasing from year to year.

The calculation of the maximum weekly benefit amount (MWBA) is mandated by sections 4453 (a) and 4653 of the California Labor Code (refer to page A2 of the Appendix – Weekly Benefit Amount for an explanation of the MWBA). The MWBA calculation is based on Department of Labor's state average weekly wage data.

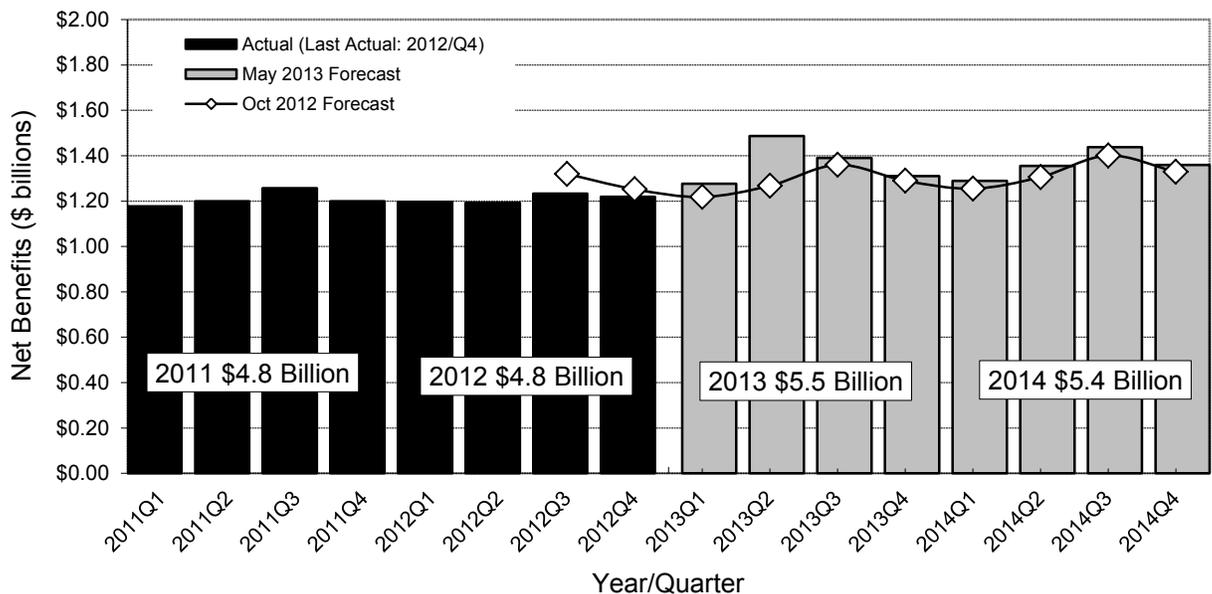
The MWBA was \$987 in 2011, \$1,011 in 2012, \$1,067 in 2013, and is projected to increase to \$1,095 in 2014.

Net benefits account for the majority of disbursements from the DI Fund. The other disbursements are for administration costs. The following chart shows actual and projected quarterly SDI benefit payment data, including PFL, from 2011 through 2014.

### Net Benefits 2011 - 2014



*SDI net benefits are projected to be \$5.5 billion in 2013.*



## CONTRIBUTIONS

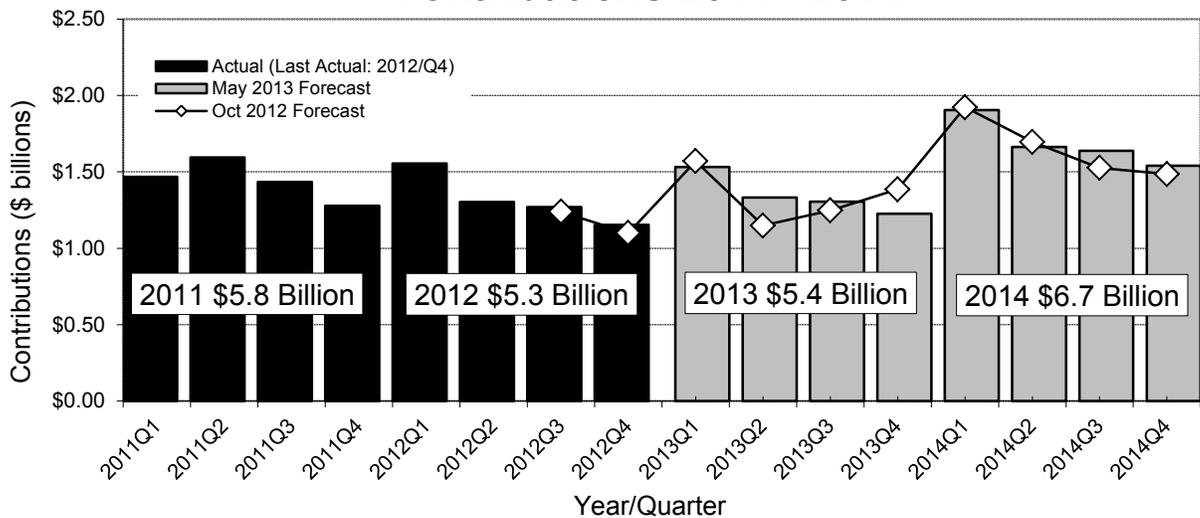
The SDI contributions were \$5.8 billion for 2011, \$5.3 billion in 2012, and are projected to increase to \$5.4 billion in 2013, and to \$6.7 billion in 2014. The projected fluctuations in SDI contributions are primarily due to the fluctuations in the SDI contribution rate and the taxable wage ceiling over the next few years.

The SDI contribution rate was 1.2 percent in 2011, decreased to 1.0 percent in 2012, remained at 1.0 percent for 2013, and is projected to increase to 1.2 percent in 2014. The statutory formula for calculating the SDI contribution rate helps to maintain an adequate DI Fund balance without having excess money in the fund (refer to page A4 of the Appendix – Tax Rate for an explanation of the SDI contribution rate).

The SDI program taxes covered employees up to a ceiling, which is calculated by the formula in Section 985 of the California Unemployment Insurance Code (CUIC). The taxable wage ceiling was \$93,316 in 2011, \$95,585 in 2012, \$100,880 in 2013, and is projected to increase to \$103,527 in 2014.

While contributions account for the majority of total receipts to the DI Fund, interest earnings, and other receipts also are included in the DI Fund balance (refer to page A1 in the Appendix - Total Receipts for an explanation of all receipts). The following chart shows the actual and projected quarterly contributions from 2011 through 2014.

### Contributions 2011 - 2014



*SDI contributions are projected to be \$5.4 billion in 2013.*

DISABILITY INSURANCE FUND  
FORECAST FOR CALENDAR YEARS 2013 – 2014

Table 1  
(Dollars in millions)

	2011	2012	2013(F)	2014(F)
<b>FUND SUMMARY</b>				
End of Calendar Year Fund Balance	\$2,270.9 <sup>(1)</sup>	\$2,498.8 <sup>(2)</sup>	<b>\$2,213.0</b>	<b>\$3,340.6</b>
<b>FUND EVALUATION</b>				
End of Calendar Year Fund Balance as a percent of Calendar Year Disbursements	44.3%	49.0%	<b>38.5%<sup>(3)</sup></b>	<b>58.6%<sup>(3)</sup></b>
<b>RECEIPTS AND DISBURSEMENTS</b>				
Receipts Less Disbursements	\$729.9	\$227.8	<b>(\$285.8)</b>	<b>\$1,127.6</b>
Total Receipts	\$5,859.1	\$5,328.7	<b>\$5,458.2</b>	<b>\$6,826.4</b>
Net Worker Contributions	\$5,772.5	\$5,278.5	<b>\$5,393.6</b>	<b>\$6,746.5</b>
Interest Income	\$8.4	\$7.8	<b>\$7.2</b>	<b>\$8.1</b>
Other Receipts	\$78.2	\$42.4	<b>\$57.4</b>	<b>\$71.8</b>
Total Disbursements	\$5,129.2	\$5,100.9	<b>\$5,744.0</b>	<b>\$5,698.8</b>
Net Benefits	\$4,833.2	\$4,841.6	<b>\$5,463.4</b>	<b>\$5,441.2</b>
Administration	\$285.0	\$245.1	<b>\$280.6</b>	<b>\$257.6</b>
Miscellaneous Disbursements	\$11.0	\$14.2	<b>\$0.0</b>	<b>\$0.0</b>

**(F) Forecast:** Last actual data through the fourth quarter of 2012. Bolded numbers are estimates.

Table 1 includes information related to DI and PFL.

- (1) Pursuant to Item 7100-011-0588 of the 2011 Budget Act, a loan of \$303.5 million from the DI Trust Fund was transferred to the General Fund for the purpose of paying the interest owed as of September 30, 2011 for an outstanding loan from the Unemployment Insurance Trust Fund. This resulted in an actual 2011 year end DI Fund balance of \$1.967 billion. However, in accordance with this budget item, this borrowing of DI funds for the interest payment did not impact the DI Contribution rate or benefits receipts and will be repaid by the General Fund no later than June 30, 2016.
- (2) Pursuant to Item 7100-011-0588 of the 2012 Budget Act, an additional loan of \$308.2 million from the DI Fund was paid to the General Fund for the purpose of paying the interest owed as of September 30, 2012 for an outstanding loan from the Unemployment Insurance Trust Fund. This loan also has no impact to the DI Contribution rate or benefit receipts, and will be repaid by the General Fund no later than June 30, 2017. This loan, in addition to the 2011 loan, would result in a projected DI Fund balance of \$1.887 billion by the end of 2012.
- (3) The forecasted fund adequacy rates are subject to change in response to changes in the contribution rate that may occur according to the Director's discretion, as per section 984(d) of the CUIC.

Note: Components may not add to totals due to independent rounding.

DISABILITY INSURANCE FUND  
FORECAST FOR CALENDAR YEARS 2013 – 2014  
Table 2

	2011	2012	2013(F)	2014(F)
<b>STATE PLAN CLAIMS DATA <sup>(1)</sup></b>				
First Claims Paid (FCP)	648,847	619,607	<b>692,800</b>	<b>676,500</b>
Weeks Paid per FCP	15.7	16.1	<b>15.9</b>	<b>15.9</b>
Weekly Benefit Amount				
Maximum/Minimum	\$987/\$50	\$1,011/\$50	\$1,067/\$50	<b>\$1,095/\$50</b>
Average	\$446	\$455	<b>\$465</b>	<b>\$472</b>
<b>COVERED EMPLOYMENT AND WAGES</b>				
Total Average Covered Employment	12,266,005	<b>12,561,000</b>	<b>12,728,000</b>	<b>13,016,000</b>
Average Covered State Plan <sup>(2)</sup>	11,792,007	<b>12,103,000</b>	<b>12,257,000</b>	<b>12,535,000</b>
Average Covered Voluntary Plan	473,998	<b>459,000</b>	<b>471,000</b>	<b>482,000</b>
Total Average Weekly Wage <sup>(3)</sup>	\$1,099	<b>\$1,102</b>	<b>\$1,136</b>	<b>\$1,167</b>
Average State Plan Wage <sup>(3)</sup>	\$1,015	<b>\$1,024</b>	<b>\$1,057</b>	<b>\$1,085</b>
Average Voluntary Plan Wage <sup>(3)</sup>	\$3,194	<b>\$3,151</b>	<b>\$3,205</b>	<b>\$3,291</b>
Total Covered Wages	\$703.8 (bil)	<b>\$722.6 (bil)</b>	<b>\$755.0 (bil)</b>	<b>\$792.7 (bil)</b>
Covered State Plan Wages	\$624.8 (bil)	<b>\$647.2 (bil)</b>	<b>\$676.2 (bil)</b>	<b>\$709.9 (bil)</b>
Covered Voluntary Plan Wages	\$79.0 (bil)	<b>\$75.4 (bil)</b>	<b>\$78.8 (bil)</b>	<b>\$82.7 (bil)</b>
State Plan Taxable Wages	\$444.0 (bil)	<b>\$473.5 (bil)</b>	<b>\$484.2 (bil)</b>	<b>\$504.7 (bil)</b>
TAX RATE (Contribution Rate)	1.2%	1.0%	1.0%	<b>1.2%</b> <sup>(4)</sup>
TAXABLE WAGE CEILING	\$93,316	\$95,585	\$100,880	<b>\$103,527</b> <sup>(5)</sup>
UNEMPLOYMENT RATE (Civilian)	11.8%	10.5% <sup>(6)</sup>	<b>9.5%</b> <sup>(6)</sup>	<b>8.5%</b> <sup>(6)</sup>

**(F) Forecast:** Last actual data for wages and employment is through the second quarter of 2012. Last actual data for other items is through the fourth quarter of 2012. Bolded numbers are estimates.

- (1) Information in this area does not include PFL. Table 3 provides a display of data related only to PFL.
- (2) Includes state employees covered by DI. Beginning October 2005 state employees in specific bargaining units began paying SDI premiums and became eligible to receive benefits effective April 1, 2006.
- (3) The Average Weekly Wage is calculated using estimated Covered Wages divided by Average Covered Employment divided by 52.2 (weeks per year).
- (4) The projected tax rate of 1.2 percent for 2014 is based on estimated data as of the time this report was prepared. The actual calculation and announcement of the 2014 DI tax rate will be made in October 2013.
- (5) The projected Taxable Wage Ceiling for 2014 is based on estimated data as of the time this report was prepared. The actual Taxable Wage Ceiling for 2014 will be included in the October 2013 DI Fund Forecast.
- (6) Based on the Labor Market Information Division economic outlook of January 2013.

Note: Components may not add to totals due to independent rounding.  
(bil) = Amount in billions.

PAID FAMILY LEAVE  
 FORECAST FOR CALENDAR YEARS 2013 – 2014  
 Table 3

	2011	2012	2013(F)	2014(F)
<b>PAID FAMILY LEAVE CLAIMS DATA</b>				
First Claims Paid (FCP)	195,794	202,494	<b>213,900</b>	<b>216,600</b>
Weeks Paid per FCP	5.4	5.3	<b>5.4</b>	<b>5.4</b>
Weekly Benefit Amount				
Maximum/Minimum	\$987/\$50	\$1,011/\$50	\$1,067/\$50	<b>\$1,095/\$50</b>
Average	\$492	\$505	<b>\$521</b>	<b>\$531</b>
<b>NET BENEFITS</b>	\$508.7 (mil)	\$537.9 (mil)	<b>\$590.1 (mil)</b>	<b>\$606.9 (mil)</b>

**(F) Forecast:** Last actual data through the fourth quarter of 2012. Bolded numbers are estimates.

Table 3 provides a display of data related only to PFL.

Note: Components may not add to totals due to independent rounding.  
 (mil) = Amount in millions

# A P P E N D I X

## STATE DISABILITY INSURANCE (SDI) DEFINITIONS

The following definitions are informational only and arranged in order of their appearance in Tables 1 and 2. The law is the California Unemployment Insurance Code (CUIC) and the California Labor Code. Interpretations of the law are contained in opinions of the Attorney General, administrative and court decisions, and Title 22 of the California Code of Regulations.

### TOTAL RECEIPTS

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#### ***Net Worker Contributions:***

This amount represents total worker contributions, less refunds. For example, in 2012, total worker contributions are the amount collected as a result of employers withholding 1.0 percent of all wages for each employee, up to a maximum of \$955.85 (1.0 percent of \$95,585, the taxable wage ceiling). However, if an employee worked for more than one employer, the total withheld in 2012 may exceed \$955.85. The employee would then be eligible for a refund of the amount exceeding \$955.85. Refunds are claimed as a credit on the California personal income tax return. Individuals not required to file personal income tax returns may file for refunds with the Employment Development Department.

#### ***Interest Income:***

This is interest earned on the State Treasurer's investment of DI funds. At any given time, about 99 percent of the DI Fund is invested. The total amount earned by such investments constitutes interest income.

#### ***Other Receipts:***

Receipts from Voluntary Plan assessments constitute the largest portion of "Other Receipts." A Voluntary Plan is an approved private plan. It may be substituted for the State Plan if the Voluntary Plan matches the State Plan's benefits, provides at least one greater benefit, and costs the employee no more than the State Plan. Employers and employee groups may establish Voluntary Plans with mutual consent of the employer and a majority of the employees. The Voluntary Plan assessment rate is 14 percent of the DI State Plan contribution rate. In 2012, with the State Plan tax rate at 1.0 percent, Voluntary Plan employers were assessed 0.0014 (14 percent of 0.010) of taxable wages. These assessments are used to reimburse the Disability Fund for the amounts paid for administrative costs arising out of voluntary plan oversight. "Other Receipts" also includes reverted checks, which are monies that were not cashed by the claimant and are deposited back into the Fund.

## **TOTAL DISBURSEMENTS**

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### ***Net Benefits:***

This is the amount of benefits paid to claimants, less the amount of cancellations, refunds, or liens. Total benefits may be reduced for various reasons, including: death of claimants; repayment by claimants of benefits erroneously claimed; repayments to the DI Fund by other programs; and benefit checks not cashed.

### ***Administration:***

All disbursements from the DI Fund that are not benefit payments fall into the administration category. This includes disbursements for salaries, equipment, supplies, rent, and utilities.

### ***Miscellaneous Disbursements:***

All miscellaneous adjustments such as Victims Compensation Board payments, 21<sup>st</sup> Century costs, surcharge fees from the Board of Control Claims and Generally Accepted Accounting Principles (GAAP) reporting costs.

## **STATE PLAN CLAIMS DATA**

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### ***First Claims Paid:***

These are the first benefit payments mailed to each claimant who has fulfilled non-monetary, monetary, and medical requirements and who has filed a claim certifying the onset of a disability.

### ***Weeks Paid Per First Claims Paid:***

The average number of weeks that benefits are paid for each first claim paid.

### ***Weekly Benefit Amount:***

This is the amount payable per week for the period of a disability. The maximum weekly benefit amount (MWBA) increases by an amount equal to the percentage increase in the state average weekly wage as compared to the prior year. The MWBA was \$987 in 2011 and \$1,011 in 2012. The MWBA increased to \$1,067 in 2013 and is projected to increase to \$1,095 in 2014.

Per section 4453.(a) of the California Labor Code reads: ...the limits specified in this paragraph shall be increased by an amount equal to the percentage increase in the state average weekly wage as compared to the prior year. (The) "state average weekly wage" means the average weekly wage paid by employers to employees covered by unemployment insurance as reported by the United States Department of Labor for California for the 12 months ending March 31 of the calendar year preceding the year in which the injury occurred.

The following table compares the MWBA and the average weekly benefit amount (AWBA) for CY 2005 – 2014:

YEAR	MWBA	AWBA
2005	\$840	\$373
2006	\$840	\$390
2007	\$882	\$405
2008	\$917	\$421
2009	\$959	\$443
2010	\$987	\$447
2011	\$987	\$446
2012	\$1,011	\$455
2013	\$1,067	\$465 (E)
2014	\$1,095 (E)	\$472 (E)

(E) = Estimate

A table in Section 2655 (a) of the CUIIC is used for calculating a claimant's weekly benefit amount (WBA) if the base period high quarter wages (HQW) do not exceed \$1,749.20. If the HQW exceeds \$1,749.20, the WBA is equal to 55 percent of the HQW divided by 13; not exceeding the maximum benefit amount, or  $((HQW \times .55)/13)$ .

## **COVERED EMPLOYMENT AND WAGES**

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### ***Total Average Covered Employment:***

Employers count the number of employees on their payrolls during the week which includes the 12th day of the month. Quarterly and annual averages are taken from these counts.

### ***Total Average Weekly Wage:***

To derive the average weekly wage, total wages are divided by covered employment, and the result is then divided by the number of 5-day work weeks in the period. The number of work weeks varies from 12.8 to 13.2 in a quarter and from 52.0 to 52.4 in a year.

### ***Total Covered Wages:***

Covered wages are wages earned by employees subject to the SDI provisions defined in Part 2 of the CUIIC. Total covered wages include tips, commissions, bonuses, and the reasonable cash value of all remuneration payable to an employee in any medium other than cash.

**State Plan Taxable Wages:**

The portion of covered wages from which SDI contributions are taken.

**Tax Rate:**

The rate at which workers' contributions are determined.

The statutory formula in Section 984(a)(2) of the CUIC for calculating the SDI Contribution rate considers fund conditions and cost rate with a year-ending date of September 30 as follows:

$$\frac{1.45 \times \text{Disbursements} - \text{Fund Balance}}{\text{State Plan Taxable Wages}}$$

An ad hoc Advisory Committee, comprised of labor and employer representatives, worked with the Department and independent actuaries to develop this experience-based contribution formula to maintain a prudent reserve, reflect benefit costs, and avoid excessive volatility and instability.

Based on section 984(a)(3) of the CUIC, the rate of worker contributions shall not exceed 1.5 percent or be less than 0.1 percent. The rate of worker contributions shall not decrease from the rate in the previous year by more than two-tenths of one percent. Per section 984(d) of the CUIC, the Director may, at his or her discretion, increase or decrease, by not to exceed 0.1 percent, the rate of worker contributions determined by the above formula.

**Taxable Wage Ceiling:**

This is the upper limit of wages in a calendar year subject to SDI contributions. Section 985 of the CUIC requires the taxable wage ceiling to be four times the MWBA multiplied by 13 and divided by 55 percent:  $((4 \times \text{MWBA} \times 13) / .55)$ .

The taxable wage ceiling was \$93,316 for 2011, and \$95,585 for 2012. The taxable wage ceiling increased to \$100,880 in 2013 and is projected to increase to \$103,527 in 2014.

**Unemployment Rate (Civilian):**

The number of unemployed persons in California expressed as a percentage of the total number of persons in the California civilian labor force.